IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF IOWA
CEDAR RAPIDS DIVISION

JON E. KINZENBAW and KINZE MANUFACTURING, INC., Plaintiffs, vs. CASE, L.L.C., f/k/a CASE CORPORATION and NEW HOLLAND NORTH AMERICA, INC., Defendants.	No. C 01-133 LRR **ORDER**
CASE, L.L.C., f/k/a CASE CORPORATION and NEW HOLLAND NORTH AMERICA, INC., Counter-Plaintiff, vs. JON E. KINZENBAW, KINZE MANUFACTURING, INC., JAMES J. HILL and EMRICH & DITHMAR, a partnership, Counterclaim Defendants.	

I. INTRODUCTION

This matter comes before the court pursuant to Case L.L.C.'s ("Case") Motion to Disqualify Plaintiffs' Counsel (docket no. 184). The court held a hearing on May 13, 2004 on the motion. At the hearing, the court took the parties' arguments under advisement and indicated a written ruling would follow.

II. FACTUAL BACKGROUND

Beginning in 1996 and continuing through April 2004, lawyers at Perkins Coie LLP ("Perkins") in Seattle, Washington represented Case on various matters. Perkins did not represent Case on any patent law issues. On November 5, 2001, William Cahill and Jan Feldman of the Cahill, Christian & Kunkle, Ltd. ("Cahill") law firm in Chicago, Illinois were admitted *pro hac vice* on behalf of Jon E. Kinzenbaw and Kinze Manufacturing, Inc. (collectively, "Kinze") in the pending litigation. In October 2002, Perkins acquired the Cahill firm. In the process, it ran a conflicts analysis which showed a potential conflict in Case. Due to circumstances unknown, Case was removed from the potential conflicts list without acquiring a waiver from Case and Kinze or any other follow-up. In February 2004, approximately seventeen months into the present litigation and four months before the trial date, Case states it discovered Perkins' conflict when Perkins' client service lawyer, Mark Schneider, called David Mueller, Senior Counsel for Case, to discuss a possible waiver of a potential non-litigation conflict. Perkins froze its work for Case and Kinze on February 26, 2004 while investigating the conflict. On April 20, 2004, Perkins terminated its relationship with Case.

Perkins admits it concurrently represented Case and Kinze, but insists there was no prejudice to Case because its representation of Case was on completely separate matters and no secrets were divulged and used against Case in the pending litigation. It also advised the court the conflict was not discovered because the attorneys working for Case were located in Seattle and the attorneys working for Kinze were located in Chicago, and each group of lawyers did not know anything about the other's work. Perkins argues Kinze, an innocent third party, will be substantially prejudiced if required to seek new counsel this far along in a complicated patent case. It also contends if Perkins is disqualified, Kinze loses its right to counsel of its choice. Perkins points out Kinze's previous counsel was disqualified in this case in May 2002 and it is unfair to require Kinze

to have to obtain new counsel for a third time in one case.

Case argues Perkins concurrently represented both parties, and even if the representation was on wholly different matters, disqualification is the only appropriate remedy. Case concedes the conflict was not intentional, but argues the mental state is not relevant to a disqualification determination. Furthermore, Case insists, no alternative remedy is available.

A related filing is Perkins Coie's Objections and Motion to Strike (docket no. 189). In the document, Perkins moves the court to strike Case's "speculative allegations of intentional wrongdoing."

III. ANALYSIS

A. Legal Standard

"'The decision to grant or deny a motion to disqualify an attorney rests in the discretion of the [district] court.'" *Midwest Motor Sports v. Arctic Sales, Inc.*, 347 F.3d 693, 700 (8th Cir. 2003) (quoting *Petrovic v. Amoco Oil Co.,* 200 F.3d 1140, 1154 (8th Cir.1999) (internal quotations omitted and alteration in original)). "'Because of the potential for abuse by opposing counsel, disqualification motions should be subjected to particularly strict judicial scrutiny.'" *Id.* at 700-01 (quoting *Harker v. Commr.,* 82 F.3d 806, 808 (8th Cir.1996)). By local rule, this court has adopted Iowa's standards of professional conduct as set forth in Chapter 32 of the Iowa Court Rules and corresponding case law. *See* LCrR 83.2(g). Therefore, it is pertinent that the Iowa Supreme Court has ruled, "trial court discretion should be especially broad when a disqualification motion arises during trial, or when trial is imminent, because substitution of counsel will immediately impact on case flow management." *Killian v. Iowa Dist. Ct. for Linn County*, 452 N.W.2d 426, 428 (Iowa 1990). The relevant Iowa disciplinary rule reads,

> **DR 5-105. Refusing to Accept or Continue Employment if the Interests of Another Client May Impair the Independent Judgment of the Lawyer**

* * *

> (B) A lawyer shall decline proffered employment if the exercise of independent professional judgment on behalf of a client will be or is likely to be adversely affected by the acceptance of the proffered employment, except to the extent permitted under DR 5-105(D).
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> ©) A lawyer shall not continue multiple employment if the exercise of independent professional judgment on behalf of a client will be or is likely to be adversely affected by the representation of another client, except to the extent permitted under DR 5-105(D).
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> (D) In the situations covered by DR 5-105(B) and DR 5-105©), a lawyer may represent multiple clients if it is obvious that the lawyer can adequately represent the interest of each and if each consents to the representation after full disclosure of the possible effect of such representation on the exercise of the lawyer's independent professional judgment on behalf of each.
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> (E) If a lawyer is required to decline employment or to withdraw from employment, no partner or associate of the lawyer or the lawyer's firm may accept or continue such employment.

Iowa Code Prof. Resp. DR 5-105(B)-(E) (2003). Even when federal courts adopt state ethical rules for lawyers, "[m]otions to disqualify are substantive motions affecting the rights of the parties and are determined by applying standards developed under federal law." *In re Dresser Indus., Inc.*, 972 F.2d 540, 543 (5th Cir. 1992). The Eighth Circuit Court of Appeals has rejected a bright-line rule when addressing a motion to disqualify counsel:

> Disqualification of counsel, like other reaches for perfection, is tempered by a need to balance a variety of competing considerations and complex concepts. Disqualification in spasm reaction to every situation capable of appearing improper to the jaundiced cynic is as goal-defeating as failure to disqualify in blind disregard of flagrant conflicts of interest.

> Between those ethical extremes lie less obvious influences on the interest of society in the orderly administration of justice, on the interest of clients in candid consultation and choice of counsel, and on the interest of the legal profession in its reputational soul. So too, the judicial effort to light a disqualification path is unlikely to result in an early formulation of rules universally applicable to the Canons of the Code of Professional Responsibility. Rigid rules can be sterile and lacking in universal application. At the same time, an "every case on its own facts" approach can be facile and unhelpful. Ethical experience is the key. Until more is gained, rigidity may be feasible at the far ends of the ethics spectrum, while flexibility governed by facts must reign in a gradually diminishing area between those extremes.

Ark. v. Dean Foods Prods. Co., 605 F.2d 380, 383 (8th Cir.1979), *overruled on other grounds, In Re Multi-Piece Rim Prods. Liab. Litig.,* 612 F.2d 377 (8th Cir.1980) (appealability of disqualification orders).

B. Automatic Disqualification Is Inappropriate

The Eighth Circuit Court of Appeals has ruled, "Even if it were found that the [party's] counsel violated the Code of Professional Responsibility . . ., disqualification would not be the automatic result." *Grahams Svc. Inc. v. Teamsters Local 975*, 700 F.2d 420, 423 (8th Cir. 1982); *see also C. Milk Producers Coop. v. Sentry Food Stores, Inc.*, 573 F.2d 988, 991 (8th Cir. 1978) ("Although the Code of Professional Responsibility establishes proper guidelines for the professional conduct of attorneys, a violation does not automatically result in disqualification of counsel.").

The court is aware of its previously strict interpretation of the disqualification rules set forth in its previous Opinion and Order ("Order") in this case in which Kinze's former counsel was disqualified. In the Order, the court held that although motions to disqualify counsel are subject to particular judicial scrutiny, "doubts should be resolved in favor of disqualification." Order, at 6 (quoting *Goss Graphics Sys., Inc. v. Man Roland Druckmaschinen Aktiengesellschaft, et al.*, No. C 00-0035 MJM, at 5 (N.D. Iowa May 25,

2000). The court further quoted *Goss* for the proposition, "in all but a few cases [of concurrent representation], a per se rule of disqualification exists." *Id.* at 8 (quoting *Goss Graphics Sys., Inc.*, C 00-0035, at 6).

The previous motion to disqualify the Hill attorneys was filed November 26, 2001, approximately two months and nine days after the suit was filed. In that disqualification proceeding, the court found James Hill, Thomas Hill, and the law firm of Emrich & Dithmar (collectively, "the Hill attorneys") had simultaneously represented Case and Kinze regarding patent law issues. *Id.* at 10. The Hill attorneys actively worked on patent matters for both clients during the same time period and knew of the conflict. The Hill attorneys claimed the conflict had been waived, but the court found the waiver was not valid because the Hill attorneys could not have fulfilled their ethical obligations pursuant to DR 5-105 while investigating a patent claim for one client against the other. *Id.* at 13. "As of at least July 4, 2001, and arguably as early as May 7, 2001, it became 'obvious' that Mr. Hill could not adequately represent the interests of both Case and Kinze." *Id.* In that decision, "the disqualification ruling in this case turned largely on the determination that Mr. Hill's conduct violated the duty of loyalty." *Id.* at 15.

C. Considerations in Determining whether Disqualification is Appropriate Based on the Facts Presented to the Court

"[D]isqualification, as a prophylactic device for protecting the attorney-client relationship, is a drastic measure which courts should hesitate to impose except when absolutely necessary. A disqualification of counsel, while protecting the attorney-client relationship, also serves to destroy a relationship by depriving a party of representation of their own choosing." *Freeman v. Chicago Musical Instrument Co.*, 689 F.2d 715, 721 (7th Cir. 1982). As one district court has observed,

> Disqualification is one of three sanctions available to enforce the prophylactic conflicts rules. Disciplinary proceedings and civil remedies, such as malpractice suits and defenses for the non-payment of legal fees, can also be effective sanctions. In

> some ways, these other two sanctions are preferable to disqualification, because unlike disqualification they impose costs only on the attorney who has violated the rules.

SWS Financial Fund A v. Salomon Bros. Inc., 790 F. Supp. 1392, 1400 (N.D. Ill. 1992). Disqualification often results in increased expenses, delay in resolution of the proceedings, and always deprives a party of its choice of counsel. Given the costs resulting from disqualification and the potential alternative remedies, the court looks to the purposes of DR 5-105 to determine whether disqualification is an appropriate choice of sanction under the circumstances. The propriety of an attorney's conduct in concurrently representing adverse clients is "'measured not so much against the similarities in litigation, as against the duty of undivided loyalty which an attorney owes to each of his clients.'" *E.E.O.C. v. Orson H. Gygi Co.*, 749 F.2d 620, 622 (10th Cir. 1984) (quoting *Cinema 5, Ltd. v. Cinerama, Inc.*, 528 F.2d 1384, 1386 (2d Cir. 1976)); *see also Brown & Williamson Tobacco Corp. v. Daniel Intl. Corp.*, 563 F.2d 671, 673 (5th Cir. 1977) (holding the purpose of DR 5-105 is to protect litigants and maintain the integrity of the legal system).

Perkins concedes it represented adverse parties simultaneously. It therefore violated DR 5-105. The violation occurred upon merger of two law firms. Perkins contends it was unaware of its conflict for approximately seventeen months because Case was removed from its potential conflict list for reasons unknown. As soon as Perkins was aware of the conflict, it took steps to limit the damage: it froze all work for both clients pending an internal investigation into the matter and it erected an ethical wall between the lawyers working for Case and those working for Kinze.

While simultaneous representation of adverse parties is a practice this court does not condone and certainly breaches Perkins' duty of loyalty to each client, the court finds the simultaneous representation in this case did not result in a breach that should trigger the per se rule of disqualification. Perkins worked on bankruptcy and general business matters for Case. Perkins never represented Case in a patent action or reviewed Case's patents for

any purpose. There is no allegation Perkins obtained any confidential information from Case and used or could have used it on behalf of Kinze in the pending case. Indeed, each of the Chicago and Seattle offices of Perkins did not know what clients the other office held, thus allowing Perkins to simultaneously represent Kinze and Case for nearly a year and a half before recognizing the conflict.

Furthermore, the court is aware disqualification would create an enormous burden on Kinze, a completely innocent third party. While Case and Perkins had or should have had constructive knowledge of the conflict, Kinze had no way to know its chosen counsel also represented Case on wholly unrelated matters in another state. If disqualification were granted, Kinze's new attorney would likely find it difficult to master the subtle legal and factual nuances of a complex case such as this one. Perkins is lead counsel for Kinze and has expended more than 2,400 hours preparing the case during the nearly three years it has been pending. Perkins lawyers conducted eighteen of the twenty-two depositions related to Kinze's claim and conducted all eight depositions related to Case's counterclaim. At this late stage in the proceedings, it would be nearly impossible prior to trial to hire new counsel and educate them as thoroughly about this case as Perkins is currently knowledgeable.[1] After balancing all of the interests involved and considering the purpose of the ethical rule, the court denies Case's motion to disqualify Perkins from representing Kinze.

IV. CONCLUSION

IT IS ORDERED:

(1) Case's Motion to Disqualify Plaintiffs' Counsel (docket no. 184) is **DENIED**.

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[1] While the court makes no finding as to whether the instant motion was filed to stall the progress of the case, the court is mindful of the Eighth Circuit Court of Appeals' warning of the potential for abuse and therefore subjects the motion to disqualify to "particularly strict judicial scrutiny." *See Midwest Motor Sports*, 347 F.3d at 700-01.

(2) Perkins Coie's Motion to Strike (docket no. 189) is **DENIED**.

DATED this 20th day of May, 2004.

LINDA R. READE
JUDGE, U. S. DISTRICT COURT
NORTHERN DISTRICT OF IOWA